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SUBJECT: CROSS-STRAIT ENTRY PERMIT REFORMS STILL NOT ENOUGH

REF: AIT TAIPEI 3605

Summary

11. (SBU) Taiwan's Executive Yuan (EY) recently announced a package of reforms that expands the range of firms that are permitted to apply for entry permits on behalf of their employees and loosens the restrictions on which employees qualify. However, while the reforms extend the length of stay in Taiwan for some visitors, they reduce the maximum stay for others. Moreover, the new system lowers the annual quotas further limiting the number of entry permits approved each year for some companies. Most important, the new regulations do not address businesses' concerns about heavy documentation requirements, the time required to process an application, and the lack of multiple-entry permits and work permits. Taiwan needs further liberalization of entry requirements to facilitate cross-strait trade and investment and take full advantage of the opportunities available to Taiwan businesses. These limited reforms will not suffice. (End summary.)

12. (U) On November 17, Taiwan's Executive Yuan announced a new set of reforms for the system governing Taiwan entry permits for PRC employees of Taiwan and multinational firms for short-term travel. Taiwan's purpose in reforming the system was to expand the range of firms and employees eligible for entry permits in order to enhance cross-strait business in response to complaints by Taiwan and multinational firms with major operations in the Mainland. The Mainland Affairs Council (MAC) plans to implement the new rules in late December or early 2005.

A Few Steps Forward

13. (U) The new regulations slightly lower the financial requirements for Taiwan firms applying for entry permits on behalf of their employees. Currently, only firms with more than NT\$ 10 million in revenue and USD 300,000 worth of investment in the PRC may apply. The revenue requirement will remain unchanged, but the new regulations do not require any particular level of investment in the PRC. For branch offices of foreign firms in Taiwan, the current system permits only those firms that purchase USD 3 million worth of products in Taiwan to apply for entry permits. The new regulations lower that requirement to USD one million and eliminate it for financial services firms.

14. (U) The new system also allows firms to apply on behalf of a broader range of employees. Under the current regulations, Taiwan will approve permits only for certain categories of employees who have been employed by the firm for at least three months. The new system eliminates the minimum period of employment requirement. It also makes some minor changes in the categories of employees who can qualify but still limits them to managers, technical personnel, and other specialists.

And a Couple of Steps Back

15. (U) Although the Taiwan government has increased the length of time certain visitors are permitted to stay in Taiwan, for others the maximum stay has been reduced. Currently, visitors coming for training, to provide certain technical services, and to inspect purchased goods before shipment are limited to an initial stay of two months with the possibility of extension. Those visitors will be approved for an initial stay of three months under the new regulations. However, several other categories of visitors who are allowed a two-month visit under the current system will be limited to 14 days under the new one. These include visitors coming for meetings, to give speeches, and to attend exhibitions.

16. (U) Furthermore, the new regulations will reduce the annual quota of visitors for some firms. Under the old system, Taiwan firms with NT\$ 10 million to NT\$ 30 million in annual sales were permitted to bring up to 30 visitors to

Taiwan per year. The new regulations will reduce the limit on approved visitors to 15 for those firms. Firms with annual sales of more than NT\$ 30 million will continue to be allowed up to 30 visitors per year.

High, Perhaps Inflated Expectations

17. (U) MAC predicts that the new reforms could increase the number of Mainland visitors coming to Taiwan for work-related travel to up to 140,000 per year. This would mark an increase of nearly ten times current levels. According to MAC, the predicted increase in numbers would primarily be due to the increase in the number of firms eligible to invite Mainland employees. (Note: Reftel mistakenly reported that the total number of Mainland employees of Taiwan and multinational firms traveling to Taiwan for short-term business-related activities was about 1,800 in the first ten months of 2004. The actual number is almost 16,000 according to MAC data. Although significantly higher than previously reported, if correct, this number, is still only a very small fraction of the number of Taiwan businessmen traveling to the PRC every year. By way of comparison, we estimate, based on Ministry of Transportation and Communications and airline data, that as many as 17,000 people fly between Taiwan and the PRC every day. A substantial portion is made up of Taiwan businessmen. End note.)

Taiwan Losing Advantage

18. (SBU) Roberto Guidetti, General Manager of Proctor and Gamble Taiwan, on November 30, called on the Council for Economic Planning and Development (CEPD) to liberalize the entry permit process further. At a meeting between AmCham members and CEPD's chairman Hu Sheng-cheng where AIT/T was present, Guidetti said that Taiwan has a strong advantage in the greater China region as a location for personnel training. He explained that because of high turnover of personnel on the Mainland due to firms offering ever-higher compensation packages, Taiwan has the most stable workforce in greater China. This stability makes Taiwan the natural choice among Taiwan, Hong Kong and Shanghai for hosting Proctor and Gamble training sessions. Without rapid further liberalization of entry requirements, however, Taiwan's advantage in this area will erode and more business opportunities will move to the Mainland.

Comment) Still Not Enough

19. (SBU) Taiwan authorities have told AIT/T on several occasions that a significant reform of cross-strait entry permits would become effective early next year. This package is apparently what they had in mind, but it appears they have oversold the benefits and the potential impact of the new regulations. They will do little to help multinational firms. As reported reftel, various U.S. multinationals told AIT/T that the Taiwan government needs to reduce documentation requirements, shorten the time required to process an application, approve multiple-entry permits, and allow PRC employees on long-term assignment to obtain work permits. The new regulations do not address any of these concerns. The expansion of firms eligible to apply for entry permits, and employee eligibility represent minor fixes in a system with major problems. Furthermore, the new regulations actually worsen some problems. MAC's prediction of a possible tenfold increase in the number of visitors seems very unlikely. MAC officials have told us that the Council of Labor Affairs continues to work on new regulations that will allow work permits for some of these long-term visitors. Nevertheless, the Taiwan government needs to do much more to liberalize the system governing entry permits for Mainland visitors if it truly intends to facilitate cross-strait trade and investment and take full advantage of the opportunities available to Taiwan businesses. End comment.

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